FitchRatings

Public Finance
Tax-Supported
U.S.A.

Elgin, Illinois

Ratings

Long-Term Issuer Default Rating	AAA

New Issues

$7,720,000 General Obligation Refunding Bonds, Series 2021A	AAA
$9,280,000 General Obligation Corporation Purpose Bonds, Series 2021B	AAA

Outstanding Debt

General Obligation Bonds	AAA
Illinois Finance Authroity (City of Elgin Project) Local Government Program Revenue Bonds	AAA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (March 2020)

Related Research

Fitch Rates Elgin, IL's $17MM ULTGO Bonds 'AAA'; Outlook Stable (March 30)

New Issue Summary

Sale Date: April 14, 2021 competitively

Series: $7,720,000 General Obligation Refunding Bonds, Series 2021A; and General Obligation Corporation Purpose Bonds, Series 2021B .

Purpose: To refund certain series of bonds and to finance water and sewer utility projects.

Security: The bonds are payable from the GO unlimited tax pledge of Elgin (the city).

The 'AAA' Issuer Default Rating, GO and Illinois Finance Authority ratings reflect the strong revenue and expenditure frameworks of the city and its high reserve which support a very high level of gap-closing capacity and fundamental financial flexibility. The rating also reflects the city's moderate long-term liability burden.

Economic Resource Base: Elgin is a home rule city, with a population of over 110,000, about 40 miles northwest of downtown Chicago. The city enjoys a relatively broad employment base that includes healthcare, professional services and retail sectors. Unemployment trends slightly above state and national averages.

Key Rating Drivers

Revenue Framework: 'aaa': Fitch Ratings expects the city's revenue to increase above the rate of GDP growth over time driven by strong growth in the tax base and sales tax in the post-pandemic period. The city has unlimited independent legal ability to raise revenue.

Expenditure Framework: 'aa': Expenditures are expected to increase at a rate in line with revenue growth. The city has solid flexibility to adjust its main expenditure items given moderate levels of debt service and retiree benefit costs and the ability to redirect pay-go capital investment for operations.

Long-Term Liability Burden: 'aa': The city's long-term liability burden is moderate in relation to its resource base.

Operating Performance: 'aaa': The city has a very high level of gap-closing capacity, and Fitch expects it to manage through the economic cycle while retaining substantial financial flexibility. Elgin has maintained superior financial resilience through the recent downturn while increasing contributions to its two single-employer pension plans.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Not applicable given the 'AAA' IDR.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A sustained increase in fixed cost spending to over 20% of governmental expenditures;
- A trend of revenue growth falling below the level of GDP growth;
- Failure to implement available policy measures that offset risks associated with a return to economic contraction consistent with Fitch's coronavirus downside scenario, resulting in an erosion of the city's gap-closing capacity.

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Current Developments

The city entered 2020 (Dec. 31 fiscal year end) with a strong financial position with the general fund unrestricted balance equal to $76.1 million, or 57% of expenditures. Actual general fund revenue in 2020 is estimated to exceed the $126 million budgeted amount by almost $8 million, with sales taxes exceeding budget by $2.6 million and Coronavirus Aid, Relief and Economic Security (Cares) Act Funds of $5.1 million that was applied to public safety spending. Also, the city's share of state income exceeded budget by $800,000, which offset hotel/motel tax and local government gas tax revenue, which were under budget by the same amount.

The city made expenditure reductions in May 2020, including laying off part-time employees and not hiring seasonal employees. Management also implemented furloughs and some pay cuts. Expenditure savings are estimated at $2.8 million on the year relative to budget. The city had budgeted to use $1.5 million in reserves in 2020, but now estimates that it will have a $9.5 million surplus, of which the city will prefund the 2021 pension liability with $5 million.

The city's riverboat fund records various gaming and casino taxes available for general operations but typically utilized for capital projects by management. Due to the pandemic, the riverboat fund realized only $5.5 million in revenue in 2020 compared to the budgeted amount of $10.7 million. Management postponed two large projects totaling $5 million in anticipation of the shortfall. Total riverboat expenditures including usage of reserves were budgeted at $24 million but are now estimated to have been only $11.3 million in 2020. Elgin had $11.5 million in unassigned reserves in the fund at the end of 2019 and plans to draw that down for capital projects to $2.9 million by end of 2021. The riverboat is currently operating at limited capacity.

Management left the 2021 property tax levy flat and it assumed a 10% reduction in shared revenues from the state (a total of $1.1 million) and budgeted $8.1 million in riverboat revenues, down from the $10.7 budgeted in 2020. In response to the expected decline in revenue, the city reduced the 2021 general fund budget by $1.8 million compared to the 2020 budget through various spending cuts and maintained salary levels with no COLAs. The city also reduced budgeted expenditures in the riverboat fund, with the city using motor fuel tax funds for street resurfacing projects that are historically funded by riverboat revenue. The city has appropriated $2.3 million of general fund reserves to balance the budget. Reserves would remain robust if the $2.3 million appropriation was drawn, although the city historically achieves positive results relative to budget.

Credit Profile

Approximately 80% of the city's assessed value (AV) is in Kane County and the remaining 20% is in Cook County. While AV did decline by 29% from tax year 2009 through 2014, it rebounded by over 30% from 2014 through 2018, although still below the pre-recession peak.

Revenue Framework

The city's revenue framework is very strong, with rapid revenue growth over the last 10 years and an unlimited legal ability to increase revenue through the city's home rule status. Around one-third of fiscal 2019 general fund revenues came from the city's property tax, approximately 23% from sales tax, and around 10% from the city's share of the state income tax. Approximately 8% of general fund revenue came from gaming and casino taxes collected in the Elgin riverboat fund, which is included in the general fund for reporting purposes.

Fitch expects revenue growth to continue to exceed the rate of national GDP growth, driven by strong growth in AV and sales tax. While revenue generated in the riverboat fund has declined significantly since its 2005 peak ($28 million), the riverboat fund was not included in the general fund until 2011 and is treated by management purely as a capital projects fund. However, revenue in that fund can be used for general operations. Tax year 2019 AV figures show an increase of almost 9%.

The city is a home rule municipality and is not subject to the state's Limitation Law. Elgin has used this flexibility to implement new local option revenue sources, including increases in the past year to the home rule sales tax and the hotel/motel tax, a change in ambulance billing that

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/30/21
AAA	Affirmed	Stable	10/8/10
AAA	Revised	Negative	4/30/10
AA+	Affirmed	Negative	4/13/10
AA+	Assigned	Stable	3/27/07

will lead to an increase in revenue and the implementation of a new local motor fuel tax. The city maintains unlimited legal flexibility to adjust tax rates and fees as necessary.

Expenditure Framework

The majority of the city's general fund expenditures are for public safety, which accounted for around 66% of fiscal 2019 general fund spending. Highway and street expenditures were approximately 12%.

Fitch expects that expenditures will increase in line with revenue growth. The main drivers of the city's expenditure increases come from mandated COLAs in union contracts (generally close to CPI) and funding for the police and fire pension funds. The city has one open collective bargaining contract, which is under negotiation.

The city has solid flexibility over its main expenditure items. Carrying costs including debt service and pension costs are moderate at around 17% of fiscal 2019 governmental expenditures, partially due to the fast amortization rate. The city may see increasing actuarially determined contributions to its police and fire pension funds as it looks to achieve 100% funding by 2040 and begins to use annually updated mortality tables in the actuarial assumptions. Fitch's supplemental pension metric, which assumes a 20-year level payoff of the Fitch-adjusted liability, indicates that contributions are likely to continue to rise.

In fiscal 2019, the city spent over $8 million on capital projects out of the general fund using revenue from the Elgin riverboat fund. While riverboat revenue declined in 2020 and is budgeted to be below recent levels in 2021, management expects that the riverboat will rebound to pre-pandemic levels in the next few years to provide around $10 million in revenue annually that could be used for pay-as-you-go capital expenditures. This fund has enabled the city to minimize bond issuances to pay for capital projects, with a modest level of direct debt outstanding maturing in fiscal 2033. The riverboat fund had approximately $11.5 in unassigned reserves at the end of 2020 with plans to draw that amount down to $2.9 million by the end of 2021.

Long-Term Liability Burden

The city's long-term liability burden is moderate, with net pension liabilities and overall debt at under 12% of city personal income. Direct and overlapping debt comprises around 3% and 34% of the total liability, respectively, and the Fitch adjusted net pension liability comprises the remainder. Management reports that it does not have current plans to issue a significant amount of new tax-supported debt. The city's five-year capital improvement plan forecasts issuing around $10 million per year in new tax supported debt to support utility projects that are expected to be paid by utility fees.

Elgin participates in four defined benefit pension plans: the agent multiple-employer Illinois Municipal Retirement Fund (IMRF); the agent multiple-employer Sheriff's Law Enforcement Personnel Fund (SLEP); the single-employer Police Pension Plan (PPP); and the single-employer Firefighters' Pension Plan (FPP). The IMRF and SLEP are statutorily funded at the actuarially determined contribution amount, and the PPP and FPP are funded at an actuarially determined amount that would be sufficient to bring the plans to 100% funded status by 2040. Fitch estimates the aggregate ratio of assets to liabilities at 56%, assuming a 6% discount rate. The city prefunded $5 million of its 2021 pension liability for public safety employees with its 2020 surplus.

Operating Performance

Elgin has built and maintained high reserve levels through the economic cycle, despite the planned use of general fund balance over the past two fiscal years. The city's low level of revenue volatility and superior inherent budget flexibility, combined with very high levels of reserves, enable it to maintain financial flexibility well above the 'aaa' reserve safety margin threshold in the current environment and typical recessionary declines going forward. This stress analysis incorporates reserves in the riverboat fund, which is legally available to be used for operations, although the city has a practice of using the fund solely for capital projects.

Fitch views the city's budgetary management as sound. Operating results are generally favorable relative to budget, and the city has maintained reserves equivalent to 49% to 65% of spending since 2011. The city estimates that it added $4.5 to reserves in fiscal 2020 and also prefunded its 2021 pension liability. While the city did appropriate some reserves in its 2021 budget, Fitch expects that the city will end the year well above its 30% general fund balance policy.

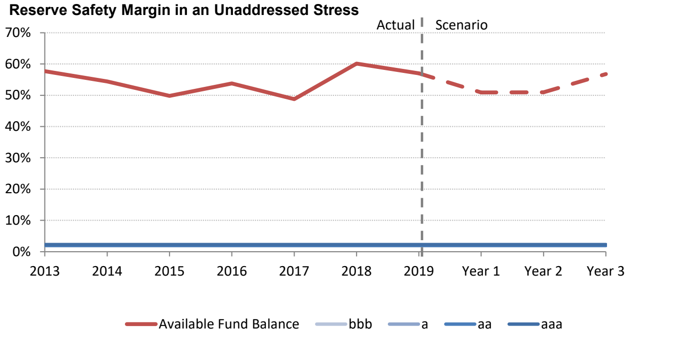
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Elgin (IL)

Scenario Analysis

Reserve Safety Margin in an Unaddressed Stress



Analyst Interpretation of Scenario Results:

Elgin has built and maintained high reserve levels through the economic recovery, despite the planned use of general fund balance over the last two fiscal years. The city's low level of revenue volatility and superior inherent budget flexibility, combined with very high levels of reserves, enable it to maintain financial flexibility well above the 'aaa' reserve safety margin threshold in a typical recessionary decline stress scenario. This stress analysis incorporates reserves in the riverboat fund, which is legally available to be used for operations, although the city has a practice of using the fund solely for capital projects.

Scenario Parameters:			Year 1	Year 2	Year 3
GDP Assumption (% Change)			(3.5%)	4.5%	3.5%
Expenditure Assumption (% Change)			0.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* **-5%**	*Case Used:* **Baseline**	(8.1%)	9.8%	7.8%
Inherent Budget Flexibility				Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	110,463	110,580	115,124	122,465	118,283	127,033	131,620	120,973	132,769	143,087
% Change in Revenues	-	0.1%	4.1%	6.4%	(3.4%)	7.4%	3.6%	(8.1%)	9.8%	7.8%
Total Expenditures	114,084	113,057	118,374	119,361	122,584	116,902	127,881	127,881	130,438	133,047
% Change in Expenditures	-	(0.9%)	4.7%	0.8%	2.7%	(4.6%)	9.4%	0.0%	2.0%	2.0%
Transfers In and Other Sources	20,254	12,375	5,607	5,298	5,318	5,401	4,876	4,481	4,918	5,301
Transfers Out and Other Uses	13,177	12,911	8,121	4,681	5,016	4,976	5,692	5,692	5,806	5,922
Net Transfers	7,077	(536)	(2,514)	617	302	425	(816)	(1,211)	(888)	(621)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	3,456	(3,013)	(5,764)	3,721	(3,999)	10,557	2,923	(8,118)	1,443	9,418
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	2.7%	(2.4%)	(4.6%)	3.0%	(3.1%)	8.7%	2.2%	(6.1%)	1.1%	6.8%
Unrestricted/Unreserved Fund Balance (General Fund)	73,457	68,569	63,012	66,735	62,238	73,277	76,120	68,002	69,445	78,863
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	73,457	68,569	63,012	66,735	62,238	73,277	76,120	68,002	69,445	78,863
Combined Available Fund Bal. (% of Expend. and Transfers Out)	57.7%	54.4%	49.8%	53.8%	48.8%	60.1%	57.0%	50.9%	51.0%	56.7%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	18.2%	9.1%	5.7%	3.4%	2.3%
Reserve Safety Margin (aa)	13.7%	6.8%	4.6%	2.8%	2.0%
Reserve Safety Margin (a)	9.1%	4.6%	2.8%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.4%	2.3%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.